

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-11 ISO-00 SP-02 USIA-15 AID-05

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NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 FEAE-00 /131 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0570

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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UNCLAS SECTION 01 OF 03 LONDON 05401

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD MAR. 31 THRU

APRIL 6, 1976

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SUMMARY. THE FURTHER DECLINE IN STERLING ADDED TO THE UNCERTAINTY SURROUNDING THE SUBSTANCE OF THE CHANCELLOR'S BUDGET MESSAGE. WHILE THE CONDITIONAL NATURE OF MANY OF THE TAX CHANGES HAS NOT DONE MUCH TO REDUCE THE LEVEL OF UNCERTAINTY, SOME IMPROVEMENT IN THE FUNDAMENTAL ECONOMIC INDICATORS IS BECOMING MORE APPARENT. WHOLESALE PRICES FOR FINISHED MANUFACTURES ROSE BY 6 PERCENT AT AN ANNUAL RATE IN MARCH AND RETAIL SALES AND INSTALLMENT BUYING FIGURES SHOWED SOME SIGNS OF RECOVERY DURING THE FIRST QUARTER. END SUMMARY.

1. EXCHANGE MARKETS. STERLING WENT THROUGH A ROUGH WEEK, LOSING OVER FIVE CENTS AND SEEING THE TRADE WEIGHTED DEPRECIATION WIDEN BY TWO PERCENTAGE POINTS. INITIALLY, THE MARKET CITED UNCERTAINTY ABOUT THE CHOICE OF THE NEW PRIME MINISTER, THE LABOR DIFFICULTIES AT LEYLAND, UNEASINESS ABOUT THE BUDGET, AND, NOW THAT THE BUDGET IS KNOWN, UNCERTAINTY ABOUT THE TUC'S RESPONSE TO THE CHANCELLOR'S CALL FOR A 3 PERCENT WAGE LIMIT. THE BANK OF ENGLAND IS WIDELY THOUGHT TO HAVE MODERATELY SUPPORTED STERLING IN THE WEEK ON ITS DOWNWARD SLIDE. LOOKING AHEAD, FOREIGN EXCHANGE MARKET OPERATORS SAY THEY ANTICIPATE UNSETTLED STERLING MARKETS UNTIL THE TUC'S VIEW ON THE WAGE LIMIT IS KNOWN. THE NATURE OF THE RESPONSE WILL HELP TO DETERMINE THE RATE AT WHICH STERLING DOES SETTLE.

2. WHOLESALE PRICES. THE RECENT SLIDE IN STERLING BROUGHT A SHARP RISE IN THE MARCH WHOLESALE PRICE INDEX FOR RAW MATERIALS AND FUELS (INPUTS) PURCHASED BY INDUSTRY. THIS OVERSHADOWED THE MUCH SMALLER INCREASE IN THE INDEX WHICH MEASURES THE WHOLESALE PRICES OF FINISHED MANUFACTURES (OUTPUTS). THE INPUT PRICE INDEX (1970 EQUALS 100) ROSE BY 3.7 PERCENT TO 273.2 FROM THE FEBRUARY LEVEL OF 263.4. IN THE THREE MONTHS THROUGH MARCH INPUT PRICES HAVE RISEN AT AN ANNUAL RATE OF 22.9 PERCENT, A FIGURE LITTLE DIFFERENT FROM THE 23.1 PERCENT RISE FOR THE YEAR THROUGH MARCH. THIS ACCELERATION IN THE COST OF RAW MATERIALS AND FUELS WILL ADD SEVERAL PERCENTAGE POINTS TO THE RATE OF INFLATION IN 1976 AS THESE INCREASES WORK THEIR WAY THROUGH TO FINAL PRICES. STER.

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LING'S RELATIVE STABILITY DURING THE NOVEMBER FEBRUARY PERIOD TOGETHER WITH THE REDUCED PRESSURE FROM RISING LABOR COSTS WAS REFLECTED IN THE 0.6 PERCENT INCREASE IN THE OUTPUT PRICE INDEX (1970 EQUALS 100) WHICH STOOD AT 208.4 IN MARCH COMPARED WITH A REVISED 207.2 IN FEBRUARY. IN THE THREE MONTHS THROUGH MARCH THE OUTPUT PRICE INDEX ROSE AT AN ANNUAL RATE OF 13.7 PERCENT, A CLEAR IMPROVEMENT OVER THE 16.3 PERCENT RISE SINCE MARCH 1974.

3. BANKING FIGURES. THE AGGREGATE BALANCES OF THE
LONDON CLEARING BANKS FOR THE FOUR WEEKS THROUGH MARCH
17, SHOW A DECLINE OF 237 MILLION POUNDS IN LENDING TO

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FM AMEMBASSY LONDON

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INFO AMEMBASSY BERN

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THE PRIVATE SECTOR. THIS DROP WHICH MAY HAVE BEEN EXAGGERATED BY SPECIAL FACTORS SUCH AS THE DECLINE IN MONEY MARKET INTEREST RATES AND THE CHANGED TIMING OF TAX PAYMENTS, REFLECTS THE CONTINUING WEAKNESS IN PRIVATE SECTOR
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DEMAND FOR FINANCING. THE DROP WAS SURPRISING IN THE WAKE OF SHARP SLOWING IN THE RUNDOWN OF INVENTORIES AND EVIDENCE THAT THE ECONOMY HAS PASSED THE TROUGH OF THE RECESSION. THIS MONTH'S SLACK DEMAND FOR CREDIT MAY BE REFLECTED IN A SLOWING IN THE RATE OF INCREASE IN THE MONEY SUPPLY AFTER LAST MONTH'S SHARP INCREASE.

4. RETAIL SALES. FINAL FIGURES SHOW THAT THE VOLUME OF RETAIL SALES DROPPED BY 2.5 PERCENT IN FEBRUARY WITH THE INDEX (1971 EQUALS 100) STANDING AT 107.1 COMPARED WITH THE PROVISIONAL ESTIMATE OF 107.5. THE DECLINE WAS EXAGGERATED BY THE POST-CHRISTMAS CLEARANCE SALES WHICH INFLATED THE JANUARY FIGURES. A MORE ACCURATE PICTURE OF CONSUMER SPENDING IS THE 7.2 PERCENT INCREASE, AT AN ANNUAL RATE, IN RETAIL SALES IN THE THREE MONTHS THROUGH FEBRUARY. WHILE THIS IS INDICATIVE OF THE BEGINNINGS OF A RECOVERY, IT SHOULD BE KEPT IN MIND THAT FEBRUARY RETAIL SALES VOLUME REMAINS 4.0 PERCENT BELOW THAT OF A YEAR EARLIER.

5. INSTALLMENT BUYING. AFTER THE CHANCELLOR'S DECEMBER ANNOUNCEMENT OF AN EASING IN CONTROLS ON INSTALLMENT PLAN BUYING, THE AMOUNT OF NEW CREDIT OUTSTANDING IN NOMINAL TERMS ROSE BY 7.1 PERCENT FROM A MONTHLY AVERAGE OF 254.7 MILLION POUNDS IN THE THREE MONTHS TO NOVEMBER 1975 TO A MONTHLY AVERAGE OF 272.7 IN THE THREE MONTHS TO FEBRUARY 1976. THIS INCREASE WAS THE RESULT OF A 9.6 PERCENT RISE IN NEW CREDIT EXTENDED BY FINANCE HOUSES AND A 5.4 PERCENT RISE IN NEW CREDIT EXTENDED BY RETAILERS. THE SHARPEST RISE (20 PERCENT) WAS RECORDED FOR CREDIT EXTENDED FOR THE PURCHASE OF CONSUMER DURABLES.

6. NATIONAL INCOME DATA. DATA FOR THE FOURTH QUARTER OF 1975 AND FULL YEAR FIGURES INDICATE THAT PERSONAL DISPOSABLE INCOME WAS UNCHANGED IN REAL TERMS IN 1975 WHILE IT INCREASED BY 22 PERCENT IN MONEY TERMS. REAL CONSUMER EXPENDITURE DROPPED BY A NEGLIGIBLE AMOUNT, WITH A CONCOMITANT INCREASE IN THE SAVINGS RATIO FROM 13.6 PERCENT OF DISPOSABLE INCOME IN 1974 TO 13.9 PERCENT IN 1975. EXCEPT FOR THE SECOND QUARTER THE SAVINGS RATIO REMAINED ABOVE THE 14 PERCENT LEVEL IN 1975. FINISHING THE
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YEAR AT 14.1 PERCENT DURING THE FOURTH QUARTER. COMPANY INCOMES WERE HARD HIT IN 1975. OVER 42 PERCENT OF GROSS TRADING PROFITS WERE DUE TO INVENTORY PROFITS. AT 5.5 BILLION POUNDS NET OF INVENTORY GAINS, GROSS TRADING PROFITS WERE JUST 10.4 PERCENT ABOVE THEIR VERY DEPRESSED 1974 LEVEL. THIS RISE IMPLIES A DECLINE IN REAL TERMS OF PRETAX PROFITS IN THE LIGHT OF THE 24 PERCENT INCREASES IN PRICES DURING 1975.

7. FOR FURTHER DETAILS OF THE BUDGET MESSAGE. SEE LONDON 5318 AND LONDON 5317.

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8. EXCHANGE RATE AND GOLD

DATE	EXCHANGE RATE (\$)	EFFECTIVE DEPRECIATION	GOLD
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(PERCENT)			
3/31	1.9160	34.1	129.50
4/1	1.8840	35.3	129.00
4/2	1.8700	35.8	129.00
4/5	1.8675	35.9	127.50
4/6	1.8615	36.1	128.25
CHANGE 3/30-4/6 DN .0545 UP 2.0 DN 0.75			

9. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
3/31	0.75	2.05	4.00
4/1	0.90	2.35	4.30
4/2	0.85	2.25	4.25
4/5	0.75	2.15	4.15
4/6	0.87	2.37	4.25
CHANGE 3/30-4/6 UP 0.07 UP 0.22 UP 0.25			
(ALL FIGURES IN CENTS)			

1. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
3/31	5	5-5/8	6-1/4
4/1	5-1/8	5-5/8	6-1/4
4/2	5-1/8	5-5/8	6-1/4
4/5	5-3/8	5-1/2	6-1/8
4/6	5	5 3/8	6
CHANGE 3/30-4/6 DN 1/8 DN 1/8 DN 3/8			

11. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
3/31	8-3/32	8-1/2	8-29/32

4/1	8-9/32	8.1/2	8-31/32
4/2	8-5/16	8.5/8	9-1/16
4/5	8-L1/32	8-11/16	9-1/8
4/6	8-11/32	8-3/4	9-3/16

CHANGE 3/30-4/6 UP 3/16 UP 3/16 UP 7/16

12. THE MINIMUM LENDING RATE REMAINS UNCHANGED AT 9
PERCENT. ARMSTRONG

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